

# Bond Market Insight

## FX-denominated bills make a comeback

### Comment on government bond placement

Last week's decline in demand motivated the MoF to return to the primary auctions with FX-denominated bills. Yesterday's proceeds will be used to both refinance part of recent FX-denominated debt repayments, and also to increase budget financing. This decision allowed an increase in borrowings to UAH9.2bn, including UAH5bn in hard currency.

Total demand was UAH12.3bn, including UAH7bn for FX-denominated bills. This USD-denominated issue and the two shortest UAH-denominated bills (the three-month and 1.5-year maturities) received most of the demand, while the lowest demand was for two-year paper. Demand for the four-year note was lower than what was offered.

**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000203921	0.00	@Mty	6-May-20	500,000	978.69	489.34	500.00	9.46	5,588.83
UA4000194377	16.75	SA	2-Jun-21	1,000,000	1,118.59	1,118.59	1,000.00	9.79	8,277.94
UA4000203236	17.25	SA	5-Jan-22	400,000	1,139.18	455.67	400.00	10.28	5,190.29
UA4000207880	9.99	SA	22-May-24	2,130,300	1,020.94	2,174.90	2,130.30	10.27	2,130.30
<b>Total UAH</b>				<b>4,030,300</b>	<b>4,238.51</b>	<b>4,030.30</b>			<b>21,187.36</b>
UA4000207898	3.39	SA	8-Apr-21	200,000	1,011.69	4,946.18	4,889.04	3.42	4,889.04
<b>Total USD</b>				<b>200,000</b>	<b>4,946.18</b>	<b>4,889.04</b>			<b>4,889.04</b>

Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 24.45/USD, 26.01/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

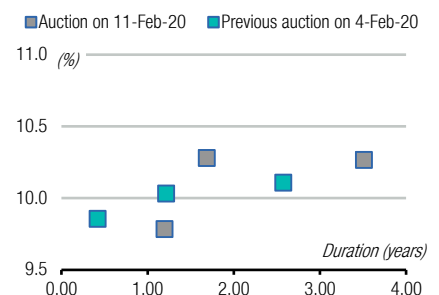
Demand for three-month bills was UAH1.16bn with the lowest rate 9.1% and the highest at 10.5%. As the offering was just UAH0.5bn, the Ministry accepted only part of demand within this cap. This allowed the MoF to significantly decrease rates for the three-month bills with a cut-off rate of 9.53% and a weighted-average rate of 9.46%, or 72bp and 69bp lower, respectively.

For 1.5-year paper, the MoF accepted only two bids, but sold the entire offered amount. It consisted of one competitive and one non-competitive bid, which were accepted and had a single rate of 9.53%, the same as cut-off rate for the three-month bills.

At the same time, for the two-year instrument, demand was just UAH0.5bn in four

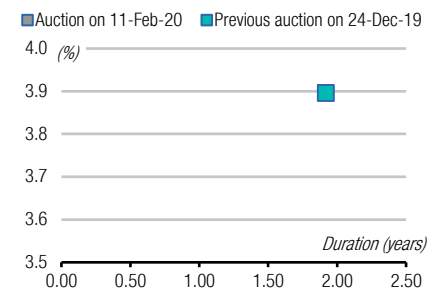
### WEDNESDAY, 12 FEBRUARY 2020

#### UAH-denominated domestic gov't bonds: yield curve in past two auctions



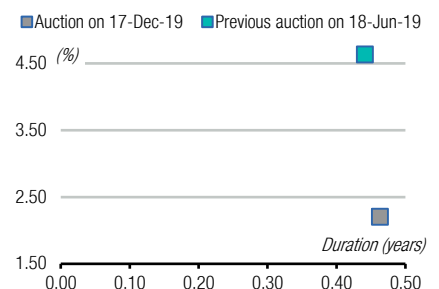
Source: Ministry of Finance of Ukraine, ICU.

#### USD-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

#### EUR-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

bids. The MoF rejected UAH0.1bn of demand in two bids, and accepted two bids, competitive and non-competitive, the same as for the 1.5-year paper. The cut-off rate was set at 10%, 20bp below the level seen two weeks ago, while the weighted-average rate rose 14bp, also to 10%.

Offering of a new four-year note had wider demand, but not in large amounts. Seventeen bids came in for a bit less than UAH2.2bn, where the most expensive were small amounts, just UAH45m in five bids. So, the cut-off rate was decreased by just 1bp to 10.09%, while the weighted-average rate was up 11bp to 9.99%.

Rates declined for FX-denominated bills too. Compared with a similar maturity sold two months ago, the cut-off rate declined 50bp and the weighted-average rate by 49bp, to 3.5% and 3.39%, respectively. The MoF sold all offered bills, and received US\$80m more in demand than was offered.

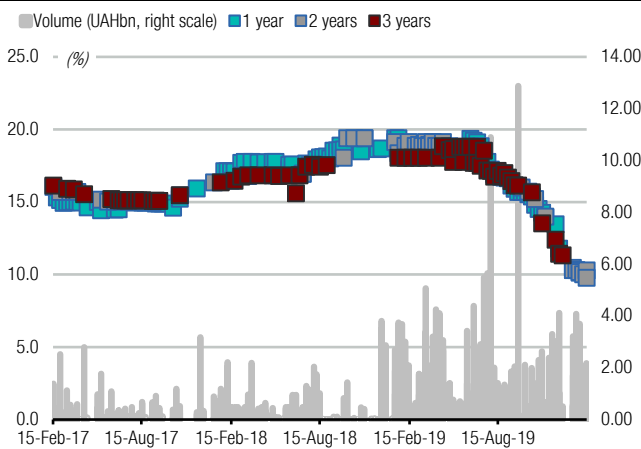
As the result of this auction, the yield curve of the primary auction sharply moved to a normal shape, declining at the short-end. At the same time, longer maturities offered investors higher rates and weighted-average rates moved close to cut-off level. This indicates normalization of market conditions, but since demand was concentrated at the short-end of yield curve, this indicates that a small number of investors ready to buy notes for four years at a 10% coupon rate.

The offering of FX-denominated bills allowed some investors to reinvest part of funds they received from debt repayments earlier this year. It also allowed some funds to be replenished for the budget, providing a better ability to repay FX-denominated debt in February and March. So, later this year we can expect FX-denominated bills to be added to the auction schedule, although the amounts of borrowings will be not large, just enough to compensate the budget with part of the hard currency needed for debt repayments.

# Appendix: Yields-to-maturity, repayments

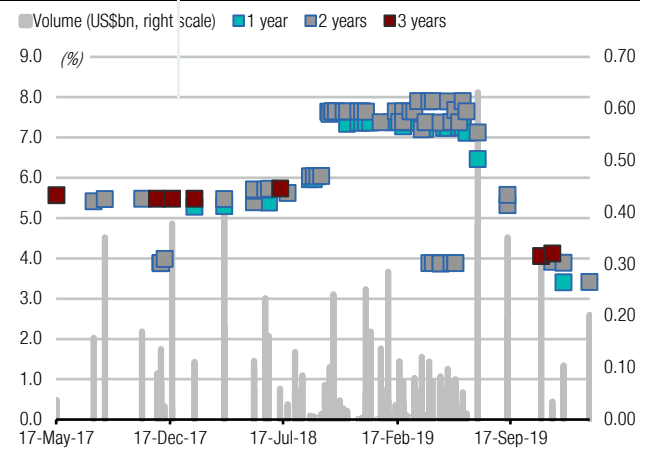
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

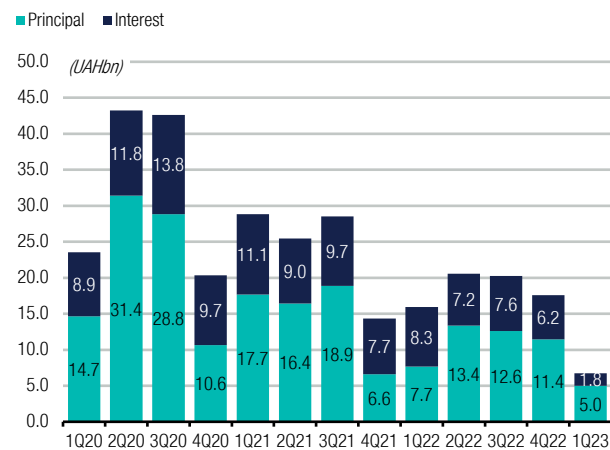
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

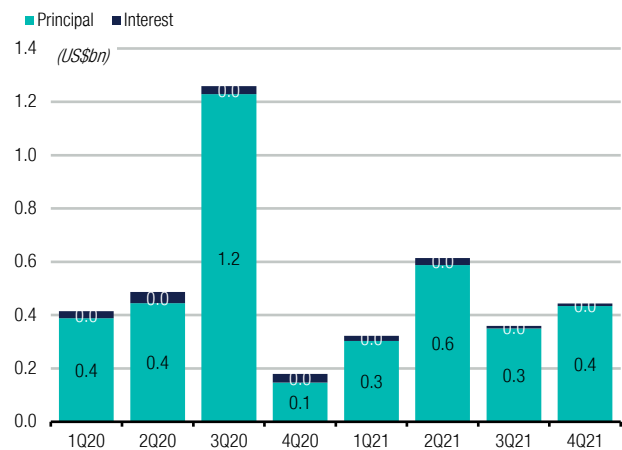
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

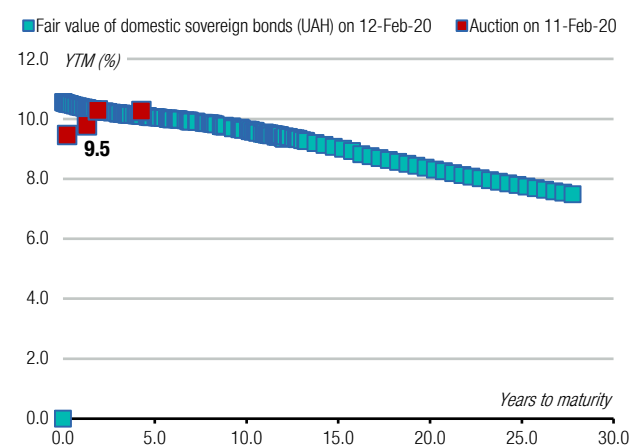
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

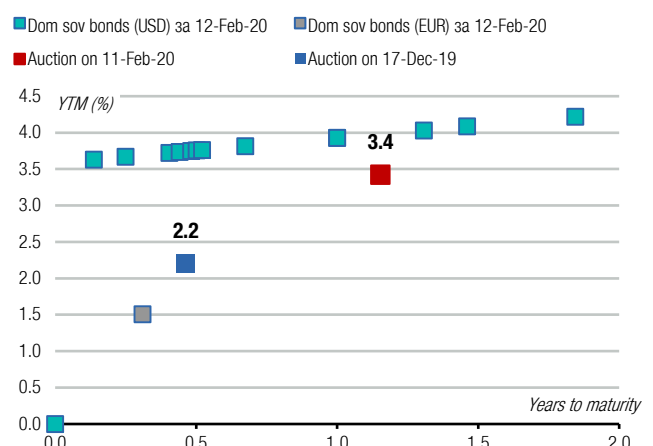
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*UAH-denominated domestic government bonds*



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

*USD- and EUR-denominated domestic government bonds*



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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